



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE CABINET FOR WORKFORCE DEVELOPMENT**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 1999

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EXECUTIVE SUMMARY
AUDIT OF THE CABINET FOR WORKFORCE DEVELOPMENT
FOR THE YEAR ENDED JUNE 30, 1999

BACKGROUND:

The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Cabinet for Workforce Development.

EXPENDITURES:

The Cabinet for Workforce Development expended federal awards in the following manner:

- \$425,442,504 in cash from 4 federal grantors

FINDINGS:

Financial Statement Accounts - *Unqualified opinion*

Compliance:

No instances of noncompliance.

Internal Control Over Financial Reporting:

Three reportable conditions, inclusive of one material weakness. Also, two other matters were noted.

Federal Awards And Schedule Of Expenditures Of Federal Awards - *Unqualified opinion*

Compliance:

Three instances of noncompliance.

Internal Control Over Compliance:

Three reportable conditions, none of which are material weaknesses. Also, two other matters were noted.

Schedule of Expenditures of Federal Awards - *Qualified opinion*

GENERAL TOPICS OF REPORTABLE CONDITIONS:

- Inadequate accounting procedures
- Inaccurate, incomplete transaction documentation
- Inadequate technology procedures
- Noncompliance with federal and state laws and regulations

Department/Division With Material Weakness:

Division of Unemployment Insurance

Department/Division With Reportable Conditions:

Department for Employment Services
Division of Unemployment Insurance
Office of Training and Re-Employment

Department/Division With Noncompliances:

Department for Adult Education and Literacy
Office of School to Work
Office of Training and Re-Employment

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INTRODUCTION

CABINET FOR WORKFORCE DEVELOPMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999

Introduction

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

Schedule of Expenditures of Federal Awards

This report contains the Schedule of Expenditures of Federal Awards for the Cabinet for Workforce Development. The Notes to the Schedule of Expenditures of Federal Awards follows the schedule to provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Federal Grant Accounting Subsystem of the Statewide Accounting and Reporting System (STARS), the Auditor of Public Accounts requested the Cabinet for Workforce Development to prepare worksheets of federal financial assistance. The source of these worksheets included STARS, agency accounting systems, agency manual records, etc. The Cabinet was also asked to reconcile the worksheets to STARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three parts, the Summary of Auditor's Results, Financial Statement Findings and Questioned Costs, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the audit opinions on the Financial Statements, Schedule of Expenditures of Federal Awards, Internal Control Over Financial Reporting, Internal Control Over Compliance for Federal Awards, and Compliance for Federal Awards. Each audit finding number and the audit finding's classification (as reportable, material, or other matter) is provided as part of the audit opinion summary. Major programs audited and Type B programs audited as major are listed on the Summary of Auditor's Results, also. The second part is the Financial Statement Findings and Questioned Costs. This part lists all of the audit findings related to the financial statements. The third part, the Federal Award Findings and Questioned Costs, lists all findings related to federal awards. Generally, the state agency, CFDA and program, federal agency, pass-through agency, and the compliance area the finding relates to are presented. In both parts two and three, reportable conditions are presented first, then material weaknesses/noncompliances, followed by other matters.

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 1998 (as well as any previous findings which have not been resolved) are reported in the agency's Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 1999. If the Auditor of Public Accounts determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

**CABINET FOR WORKFORCE DEVELOPMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Summary Schedule of Prior Audit Findings (Continued)

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matter. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid. If a finding has been reclassified from material to reportable, for instance, the finding will appear in the material finding section of the summary schedule and the comment will indicate the reclassification.

Audit Approach

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 1999 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Cabinet for Workforce Development, to the extent necessary to consider and test the internal accounting and administrative control systems as required; and
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Cabinet for Workforce Development administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

The Auditor of Public Accounts' office conducted the audit of the internal control, focusing on the following objectives:

- Considering the internal control at the Cabinet for Workforce Development in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth of Kentucky.
- Determining if the Cabinet for Workforce Development has an internal control to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

**CABINET FOR WORKFORCE DEVELOPMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report

AFR	Annual Financial Report
Cabinet	Cabinet for Workforce Development
CAFR	Comprehensive Annual Financial Report
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulation
CWD	Cabinet for Workforce Development
DAEL	Department for Adult Education And Literacy
DES	Department for Employment Services
DOL	Department of Labor
DVOP	Disabled Veterans' Outreach Program
EDGAR	Education Department General Administrative Regulations
EKCEP	Eastern Kentucky Concentrated Employment Program
ETA	Employment And Training Administration (of the US Department of Labor)
FAC	Finance Administration Cabinet
FY	Fiscal Year
JQSR	JTPA Quarterly Status Report
JTPA	Job Training Partnership Act
JV	Journal Voucher
KCTCS	Kentucky Community and Technical College Systems
KEWES	Kentucky Electronic Workplace for Employment Services
KOSTW	Kentucky Office of School to Work
KPMG	Klynveld Peat Marwick Goerdeler
KRS	Kentucky Revised Statutes
LLMA	Local Labor Market Area
MFE	Modernized Front End
N/A	Not Applicable
NCKC	North Central Kentucky Council
OMB	Office of Budget and Management
OTR	Office of Training and Re-Employment
PC	Personal Computer
PIC	Private Industry Council
PY	Program Year
QAC	Quality Assurance and Consultation Division (of the Auditor of Public Accounts)
SCUF	Service Capacity Upgrade Fund
SDA	Service Delivery Area
SSG	Sub State Grantee
STW	School to Work
STARS	Statewide Accounting and Reporting System
UI	Unemployment Insurance
UIA	Unemployment Insurance Administration
UIB	Unemployment Insurance Benefits
U.S.	United States
WAFFR	Worker Adjustment Formula Financial Reports
WFDC	Cabinet for Workforce Development
Y2K	Year 2000

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1999**

Federal Grantor CFDA # Program Title	Pass- Through Grantor's #	Expenditures Cash Noncash
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U.S. Department of Agriculture**Passed Through From Cabinet For Families and Children:**

10.561	State Administrative Matching Grants For Food Stamp Program (Note 2)	NA	\$	403,032
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U.S. Department of Labor**Direct Programs:**

17.002	Labor Force Statistics	NA		757, 861
17.207	Employment Service (Note 2) (Note 5)	NA		13,680,437
17.225	Unemployment Insurance (Note 2) (Note 4) (Note 5)	NA		267,117,984
17.245	Trade Adjustment Assistance – Workers (Note 2)	NA		17,003,538
17.246	Employment And Training Assistance – Dislocated Workers (Note 2) (Note 5)	NA		19,113,516
17.250	Job Training Partnership Act (Note 2) (Note 5)	NA		35,333,943
17.801	Disabled Veterans’ Outreach Program (DVOP)(Note 2)	NA		736,730
17.804	Local Veterans’ Employment Representative Program (Note 2)	NA		792,300
NA	National Occupational Information Coordinating Committee (Note 6)	NA		127,224

U.S. Department of Education**Direct Programs:**

84.002	Adult Education – State Grant Program (Note 5)	NA		5,973,292
84.048	Vocational Education – Basic Grants to States (Note 2) (Note 5)	NA		10,084,997
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States (Note 2) (Note 5)	NA		47,040,591
84.161	Rehabilitation Services – Client Assistance Program	NA		127,664
84.169	Independent Living – State Grants (Note 5)	NA		264,175
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who Are Blind (Note 5)	NA		141,423
84.187	Supported Employment Services For Individuals With Severe Disabilities	NA		450,818
84.224	Assistive Technology (Note 5)	NA		424,246

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1999**

Federal Grantor CFDA # Program Title	Pass- Through Grantor's #	Expenditures Cash	Noncash
<u>U.S. Department of Education (Continued)</u>			
Direct Programs (Continued):			
84.243 Tech Prep Education (Note 5)	NA	\$ 1,020,925	
84.265 Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	NA	111,551	
84.278 School To Work Implementation Grant (Note 5)	NA	3,637,092	
<u>U.S. Department of Health and Human Services</u>			
Direct Programs:			
93.563 Child Support Enforcement (Note 2)	NA	197	
Passed Through From Cabinet for Families and Children:			
93.558 Temporary Assistance For Needy Families (Note 2)(Note 5)	NA	1,016,968	
93.561 Job Opportunities And Basic Skills Training (Note 3)	NA		
Passed Through From Cabinet for Health Services:			
93.958 Block Grants For Community Mental Health Services	NA	82,000	
<u>Total Cabinet for Workforce Development</u>		\$ 425,442,504	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule – OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in that circular, federal financial assistance “. . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals . . .” It includes awards received directly from federal agencies or indirectly through other units of state and local governments. The accompanying schedule includes cash federal financial assistance programs. The Cabinet for Workforce Development had no noncash federal financial assistance for the year ended June 30, 1999. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the “Other Federal Assistance” subheading.

Reporting Entity – The accompanying schedule includes all federal financial assistance programs administered by the Cabinet for Workforce Development. The Cabinet for Workforce Development is an organizational unit of the Commonwealth as defined by KRS 12.010 and is included in the Commonwealth of Kentucky entity for financial reporting purposes.

Basis of Accounting – The cash expenditures on the accompanying schedule are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards may not be directly traceable to the general-purpose financial statements in all cases.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-agency Activity – Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Cabinet for Workforce Development's Schedule of Expenditures of Federal Awards:

- (a) Federal moneys may be received by one state agency (primary state agency – recipient) and passed through to another state agency (secondary state agency – subrecipient) where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported in the Cabinet for Workforce Development's Schedule of Expenditures of Federal Awards as follows:
 - Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the Cabinet for Workforce Development's schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure of that state agency.

- (b) Federal moneys received by the Cabinet for Workforce Development and used to purchase goods or services from another state agency are reported in the Cabinet for Workforce Development's schedules only by the purchasing agency as an expenditure.

Note 2 - Type A Programs

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal awards exceeded \$12 million. Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs must be considered as one program for determining Type A programs.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Note 2 - Type A Programs (Continued)

The Cabinet for Workforce Development had the following cash programs which met the Type A program definition for the year ended June 30, 1999, some of which were administered by more than one state agency. The Cabinet for Workforce Development identified two clusters, which included more than one federal program, among the Type A programs. These Type A programs and clusters were:

CFDA #	Program Title	Expenditures
10.561	State Administrative Matching Grants For Food Stamp Program	\$ 403,032
17.207	Employment Services	13,680,437 a
17.225	Unemployment Insurance	267,117,984
17.245	Trade Adjustment Assistance – Workers	17,003,538
17.246	Employment and Training Assistance – Dislocated Workers	19,113,516 b
17.250	Job Training Partnership Act	35,333,943 b
17.801	Disabled Veterans' Outreach Program (DVOP)	736,730 a
17.804	Local Veterans' Employment Representative Program	792,300 a
84.048	Vocational Education – Basic Grants to States	10,084,997 c
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	47,040,591
93.558	Temporary Assistance for Needy Families	1,016,968
93.563	Child Support Enforcement	<u>197</u>
	Total Type A Programs	<u>\$412,324,233</u>

Identified clusters include:

a-Employment Services Cluster

b-JTPA Cluster

c-CFDA 84.048 passed through \$5,839,610 to the Kentucky Department of Education which raised total expenditures over the \$12 million threshold.

Note 3 - Zero Expenditure Programs

These programs had no expenditures during the year ended June 30, 1999. They included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Note 4 - Unemployment Insurance (CFDA # 17.225)

The Commonwealth paid out \$242,987,643 in benefits during the year ended June 30, 1999. The amounts shown on the accompanying Schedule of Expenditures of Federal Awards reflect both the amount expended for benefits from the Trust Fund and an additional \$24,130,341 of federal funds expended for administration of the program, resulting in a combined total of \$267,117,984 federal expenditures.

Note 5 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients.

CFDA #	Federal Program Name	Amount Sent
17.207	Employment Services	\$ 666,908
17.225	Unemployment Insurance	150,316
17.246	Employment and Training Assistance – Dislocated Workers	8,297,231
17.250	Job Training Partnership Act	34,240,700
84.002	Adult Education – State Grant Program	5,611,179
84.048	Vocational Education – Basic Grants to States	5,100,602
84.169	Independent Living – State Grants	7,561
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who Are Blind	57,306
84.224	Assistive Technology	214,949
84.243	Tech Prep Education	933,694
84.278	School to Work Implementation Grant	3,306,189
93.558	Temporary Assistance For Needy Families	951,107
Total Amounts Sent to Subrecipients		<u>\$ 59,537,742</u>

Note 6 - National Occupational Information Coordinating Committee (No CFDA)

There is no CFDA number associated with this program. In the past, the program has been reported separately. However, this program is now being reported under the federal grantor, U.S. Department of Labor.

**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF THE GENERAL-PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Cabinet for Workforce Development

Report on Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The General-Purpose Financial Statements Performed In Accordance With Government Auditing Standards

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1999, we have audited cash, receipts, receivables, expenditures, payables, and payroll of the Cabinet for Workforce Development, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, and have issued our report thereon dated December 30, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth of Kentucky's financial statements are free of material misstatement, we performed tests of the Cabinet for Workforce Development's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Cabinet for Workforce Development and are disclosed in the accompanying Schedule of Findings and Questioned Costs of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cabinet for Workforce Development's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Cabinet for Workforce Development
Report on Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of The General-Purpose
Financial Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Cabinet for Workforce Development's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-CWD-1, 99-CWD-2 and 99-CWD-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted one matter involving the internal control over financial reporting and its operations, which we consider to be a material weakness, which is described at 99-CWD-3. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Cabinet for Workforce Development and are described in the accompanying Schedule of Findings and Questioned Costs of this report.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork complete -
May 15, 2000

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Cabinet for Workforce Development

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Cabinet for Workforce Development, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1999. The Cabinet for Workforce Development's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cabinet for Workforce Development's management. Our responsibility is to express an opinion on the Cabinet for Workforce Development's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cabinet for Workforce Development's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Cabinet for Workforce Development's compliance with those requirements.

In our opinion, the Cabinet for Workforce Development complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 99-CWD-9, 99-CWD-10, and 99-CWD-11.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Cabinet for Workforce Development
Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Internal Control Over Compliance

Management of the Cabinet for Workforce Development is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Cabinet for Workforce Development's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Cabinet for Workforce Development's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-CWD-6, 99-CWD-7, and 99-CWD-8.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over compliance that we have reported to the management of the Cabinet for Workforce Development and are described in the accompanying Schedule of Findings and Questioned Costs of this report.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of Commonwealth of Kentucky as of and for the year ended June 30, 1999, and have issued a report thereon dated December 30, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Cabinet for Workforce Development
Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Schedule of Expenditures of Federal Awards (Continued)

As described in Note 1, the Schedule of Expenditures of Federal Awards of the Cabinet for Workforce Development is intended to present only that portion of the expenditures of federal awards of the Commonwealth that is attributable to the transactions of the Cabinet for Workforce Development.

The general-purpose financial statements of the Commonwealth are prepared on an accrual/modified accrual basis of accounting. However, as described in Note 1, the Schedule of Expenditures of Federal Awards of the Cabinet for Workforce Development is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the expenditures of federal awards in conformity with generally accepted accounting principles.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Expenditures of Federal Awards of the Cabinet for Workforce Development is fairly stated, in all material respects, in relation to the Commonwealth's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 15, 2000

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth’s general-purpose financial statements, which include the Cabinet for Workforce Development, as of and for the fiscal year ended June 30, 1999.

Internal Control Over Financial Reporting: Our consideration of the Cabinet for Workforce Development’s internal control over financial reporting disclosed three reportable conditions. We believed that one of these reportable conditions is a material weakness. The reportable conditions and material weakness, which were disclosed during our audit of the general-purpose financial statements of the Commonwealth, are applicable to the Cabinet for Workforce Development’s Department for Unemployment Insurance. Our audit also disclosed other matters relating to the internal control over financial reporting for Cabinet for Workforce Development.

The reportable conditions, material weakness, and other matters are presented in detail in Section 2, Financial Statement Findings and Questioned Costs, of the Schedule of Findings and Questioned Costs.

Compliance: In relation to the audit of the Commonwealth of Kentucky’s general-purpose financial statements, which includes the Cabinet for Workforce Development, the results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards. However, we did note one immaterial instance of noncompliance by Cabinet for Workforce Development.

The other matter finding relative to compliance is presented in detail in Section 2 - Financial Statement Findings and Questioned Costs of the Schedule of Findings and Questioned Costs.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: We issued an unqualified opinion on the Cabinet’s compliance with the requirements applicable to each of its major federal programs. However, the results of our auditing procedures disclosed three instances on noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133. These findings are applicable to the Department for Adult Education and Literacy, the Office of School to Work, and the Office of Training and Re-Employment.

The findings relative to compliance with requirements applicable to each of its major federal programs are presented in detail in Section 3 – Federal Award Findings and Questioned Costs.

Internal Control Over Compliance: Our consideration of the Cabinet for Workforce Development’s internal control over compliance disclosed three reportable conditions. We believe that none of these reportable conditions are material weaknesses. The reportable conditions, which were disclosed during our audit, and are applicable to the Jobs Training Partnership Act and Unemployment Insurance programs. Our audit also disclosed other matters relating to the internal control over compliance for the Cabinet for Workforce Development.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)

Federal Awards and Schedule of Expenditures of Federal Awards (Continued)

The reportable conditions and other matters relative to the Cabinet’s internal control over compliance are presented in detail in Section 3 - Federal Award Findings and Questioned Costs of the Schedule of Findings and Questioned Costs.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Cabinet’s Schedule of Expenditures of Federal Awards because the schedule was presented on the basis of accounting that is not in conformance with generally accepted accounting principles as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth’s general-purpose financial statements taken as a whole.

Identification of Major Programs Audited

OMB Circular A-133 defines a major program as “a Federal program determined by the auditor to be a major program in accordance with section __.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section __.215(c).” Section __.520 states, “The auditor shall use a risk-based approach to determine which federal programs are major programs.” The following is a list of major Type A programs audited:

CFDA #	Program Title	Expenditures
17.207	Employment Service	\$ 13,680,437 a
17.225	Unemployment Insurance	267,117,984
17.245	Trade Adjustment Assistance – Workers	17,003,538
17.246	Employment and Training Assistance – Dislocated Workers	19,113,516 b
17.250	Job Training Partnership Act	35,333,943 b
17.801	Disabled Veterans’ Outreach Program	736,730 a
17.804	Local Veterans’ Employment Representative Program	792,300 a
Total Type A Programs Audited		<u>\$353,778,448</u>

Identified clusters include:

- a** – Employment Services Cluster
- b** – JTPA Cluster

**CABINET FOR WORKFORCE DEVELOPMENT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 1999
 (CONTINUED)**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)

Identification of Major Programs Audited (Continued)

The following is a list of major Type B programs audited:

CFDA #	Program Title	Expenditures
84.002	Adult Education – State Grant Program	\$ 5,973,292
84.278	School-to-Work Implementation Grant	<u>3,637,092</u>
	Total Type B Programs Audited	<u>\$ 9,610,384</u>

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$12,000,000.

Auditee Qualify as Low-Risk Auditee

The Commonwealth did not qualify as a low-risk auditee.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance:

FINDING 99-CWD-1: The Division Of Unemployment Insurance Should Perform Regular Cash Reconciliations To Safeguard Assets

The FY 1998 audit for Unemployment Insurance contained an "other matter" condition relating to the lack of reconciliations of agency cashbooks to FAC and the bank. The prior year audit noted in its findings that the agency had not reconciled the cashbook to Farmer's National Bank since July 1997 and had not reconciled the cashbook to STARS since February 1998. In its response to the finding, the agency agreed with the auditor's finding and stated that regular reconciliations would be performed.

However, during our testing for the FY 1999 audit, we found the deficiencies with the reconciliations had not been corrected. Therefore, we conclude the agency response to the FY 1998 finding has been materially misrepresented.

Not reconciling to the bank or to FAC in approximately 16 months (since February 1998) could lead to material misstatements in the financial reports that are sent to the federal government. The lack of reconciliations also interferes with the agency's ability to detect bank errors and STARS posting errors.

Proper internal controls dictate that safeguarding of assets through reconciliations constitutes a process designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and unauthorized access to assets that could result in losses that are material to the financial statements. For example, the lack of reconciliation of agency's records to STARS and to the bank accounts makes it difficult for the agency to detect unauthorized transactions through error or fraudulent behavior.

Recommendation

We recommend the agency perform cashbook reconciliations to the bank statements and the FAC reports. The reconciliations should allow the agency to detect posting errors made in the cashbook, as well as errors made at the bank. This should also ensure that items incorrectly posted to the cashbook are detected and corrected in a timely manner.

Management's Response and Corrective Action Plan

We concur with your findings that the reconciliations were not completed as promised. We responded in good faith, indicating that we would make the reconciliations and had every intention of making good on that promise. While we had no intention to misrepresent, we realize that we did not follow through as promised. We, as an agency, are embarrassed by this failure and regret that it occurred. We recognize that the effect of this failure interferes with our ability to adequately account for the monies moving in and out of our accounts.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-1: The Division Of Unemployment Insurance Should Perform Regular Cash Reconciliations To Safeguard Assets (Continued)

Management's Response and Corrective Action Plan (Continued)

We addressed this with the personnel responsible for the errors. We are currently reviewing our internal procedures. We have set about to perform all reconciliations and will have these completed by January 1, 2000, or at some point very near thereafter.

FINDING 99-CWD-2: The Division Of Unemployment Insurance Should Strengthen Controls Over Cash

During testing of the agency's internal controls over cash, we noted several weaknesses. We noted that one individual has the authority to sign documents, make cashbook adjustments, process drawdowns, and is also currently responsible for reconciling the cashbook. We found that access to the cashbook was not restricted, adjustments could be made after year-end, and several discrepancies occurred in the agency's cashbooks that were undetected. All the deficiencies above indicated a potential severe lapse in controls over cash reporting.

The agency cannot properly detect posting errors, unauthorized transactions, or misappropriation of funds when responsibilities over cash accounting and reporting are not segregated.

We found that access to the cashbook was not restricted, which could lead to unauthorized changes being made and going undetected. The agency does not save the data in the cashbooks as read-only to eliminate adjustments being made after each month.

In reviewing one month's Benefits cashbook, the auditor discovered additional findings:

- We noted an entry posted both in the deposit and disbursement section of the Benefits cashbook. The entry was found to be a return check that should have only been a decrease to the deposit section of the cashbook. The deduction to the disbursement section made a misstatement of \$100 to the section.
- Unknown items were posted to the cashbook that could not be explained by the agency once brought to their attention. Without reconciling the agency records, the agency would not fully know what was outstanding at any given date or if unauthorized charges were being placed against the account. The agency only had these explained as "unknown decrease" or "unknown deposit" on the cashbook.
- Federal reports are prepared using the cashbook data that is not properly reconciled, therefore, making the information undependable and unreliable.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-2: The Division Of Unemployment Insurance Should Strengthen Controls Over Cash (Continued)

- A Journal Voucher (JV) was posted one month and the same JV posted again the next month for a different amount. Since preprinted Journal Vouchers are used to prepare entries, this could not be explained.
- Debits were being taken out of the bank statement due to an encoding error on the bank's behalf that had been occurring since April 1999 and was corrected only when we brought it to the agency's attention. Treasury discovered these when reconciling to the bank statements. This could have led to a significantly material error had it remain undetected. The total effect of these errors on the FY 1999 audit was \$246, but the overall amount of this error was \$669 from April 1999 to September 1999.

Proper internal controls dictate that segregation of duties and a good internal control structure are required to ensure the safeguarding of agency assets.

Recommendation

We recommend the agency segregate the duties of agency staff to ensure appropriate controls over cash. The agency should implement a plan to ensure that employees with authorization to approve documents, record cashbook entries, or drawdown funds are not responsible for reconciliation between the cashbook and STARS.

Furthermore, the agency should implement controls to ensure the accuracy of agency records, to detect misstatements in agency records and federal reports, and to ensure that agency records cannot be inadvertently changed after closing periods without detection, which could indicate errors or fraudulent behavior.

Management's Response and Corrective Action Plan

Under separate cover, we have requested assistance from the Division of Quality Assurance and Consultation (QAC) [of the Office of the Auditor of Public Accounts]. We anticipate that this will assist us in detailing the systemic flaws in our accounting processes. We hope that they can make recommendations regarding the computer software needed to replace our existing spreadsheet applications.

During the interim, we are evaluating our cashbook responsibilities and will begin segregating the functions that are now performed by one individual.

While we are taking immediate action on this matter, we recognize that a totally compliant system cannot be fully utilized until we meet with QAC for consultation and can install better accounting software. We expect to have the software installed and new procedures fully implemented by June 2000.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Material Weaknesses/Noncompliances Relating To Internal Controls And/Or Compliance:

FINDING 99-CWD-3: The Division Of Unemployment Insurance Should Ensure Computer Accounting Systems Are Operating Effectively And Amounts Reported From Those Systems Can Be Supported

The Branch Manager of Tax Status, in response to inquiries, reported several programming errors had delayed the balancing of the trial balance of accounts receivables for delinquent contributions. The first quarter of 1999 was not balanced until September 30, 1999, and the second quarter, or fiscal year end, trial balance remains unbalanced. These errors effected all areas of the trial balance—both contributing employers and reimbursing employers. These problems were not brought to the attention of the audit staff prior to this inquiry.

During the course of our audit, analytical procedures revealed a significant increase in the receivable due from reimbursing employers from FY 1998 to FY 1999. This amount had increased 125% in FY 1999. Furthermore, the agency used the erroneous trial balance numbers in reporting Fund 62 Accounts Receivable on the AFR – 30 & AFR – 32 Closing Package Schedules.

As a result of these errors, we cannot rely on the controls of the Unemployment Insurance computer system to provide accurate reports related to employer tax including a trial balance of delinquent contributions. The system reports did not accurately reflect system inputs. The \$25,590,138.25 of employer tax receivable reported by the agency was based on an unverified report and therefore cannot be substantiated.

The agency submitted its closing package containing unverified receivable amounts from a trial balance of delinquent employer contributions. This trial balance at June 30, 1999 had not been balanced or verified as of this date, yet the agency reported these figures without qualification in the closing package submitted to FAC.

Proper internal control dictates the output of a computer system accurately reflects inputs and that system reports be verified prior to inclusion in external reports such as the FAC closing package.

FAC closing package instructions state that receivables are “the amount of revenue earned in FY 1998-99 which was not received as of June 30, 1999, and will process as a new year document.” The agency cannot provide valid evidential matter to support the amounts they reported.

Recommendation

The closing package submitted by the agency must be supported by balanced or verifiable documentation such as trial balances. Corrections to computer systems and additional system controls must be implemented to prevent the recurrence of programming errors that effect the trial balance.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

**Material Weaknesses/Noncompliances Relating To Internal Controls And/Or Compliance:
(Continued)**

FINDING 99-CWD-3: The Division Of Unemployment Insurance Should Ensure Computer Accounting Systems Are Operating Effectively And Amounts Reported From Those Systems Can Be Supported (Continued)

Management's Response and Corrective Action Plan

We concur with the findings regarding our trial balances and not having proper procedures in place to verify the information contained in the trial balance.

The agency converted systems in February 1999 to prepare for Y2K. With this conversion, we encountered system and programming problems. We were delayed in the completion of the first quarter trial balance and the issuance of the 1999 tax rates.

Also, as a result of legislation passed by the 1998 General Assembly, beginning January 1, 1999, an employer's tax payment is to be split between two different funds, Kentucky's Unemployment Trust Fund and the new Service Capacity Upgrade Fund (SCUF). The programming changes to accomplish this began in 1998 and were tested prior to the live data being received. The first quarter reports were due on or before April 30, 1999. When we began auditing the reports, programming and system problems were identified and corrected.

Unfortunately, due to the system conversions and the implementation of SCUF, the process to complete the first quarter 1999 trial balance was not completed until September 1999 and the second quarter 1999 has not been completed. This has resulted in incorrect information on all reports that utilize the system data.

Quite frankly, we have not invested any significant monies to reprogram our existing system because we are investing substantial amounts of money in a total system redesign. The Kentucky Electronic Workplace for Employment Services (KEWES) will eliminate the current trial balance process and it should provide complete, timely and accurate report information.

However, despite our reliance on our system redesign, we will begin to develop a back-up plan to design the necessary program upgrades that will allow us to generate the correct data required for our close-out reports in case KEWES does not become operational when planned. Additionally, we will develop procedures to verify the information provided in the closeout.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance:

FINDING 99-CWD-4: The Division Of Unemployment Insurance Should Establish Procedures To Account For Service Capacity Upgrade Funds Per The Requirements Of KRS 341.243

Through agency inquiry and through review of the Kentucky Revised Statutes (KRS) relating to Unemployment Insurance, we noted that new legislation took effect January 1, 1999, which set up the administration of the Service Capacity Upgrade Fund (SCUF). The Statute requires that these funds be collected from employers in the state along, with Unemployment Insurance contributions. However, the funds should be accounted for separately from the UI Trust Fund (Fund 62). During our review of receipts, we noted that Unemployment Insurance actually receipted the SCUF collections into Fund 62. Agency personnel indicated that the SCUF accounts were not set up in time for the funds to be receipted into the proper accounts; once the accounts were set up, some of the money was transferred to the proper accounts. However, the transfer from Fund 62 increased the fund's expenditures rather than corrected the erroneous receipts. The auditors recommended an adjustment to correct the erroneous receipts and expenditures.

The records we obtained indicate that approximately \$3,267,256 was collected by UI for SCUF. These funds were deposited into Fund 62, which overstates the receipts for the fund by the total amount. Also, in June, the agency recorded a \$1,500,000 transfer from Fund 62 to Fund 14. This transfer increased expenditures to Fund 62. Since the SCUF funds should not have been maintained in Fund 62, the transfer overstated the expenditures for the fund by \$1,500,000.

KRS 341.243 (1) states that the service capacity upgrade fund "shall be administered separate and apart from all public money or funds of the state."

KRS 341.243 (6) states that all payments required under subsection (5) of this section [SCUF contributions from contributory employers], along with any interest due to late payment of these assessments, shall be deposited into the service capacity upgrade fund."

Recommendation

We recommend that the Division of Unemployment Insurance establish accounting and control procedures to properly account for SCUF collections separate from the accounts of the UI Trust Fund. The auditor's recommended transfer was accepted by FAC for FY 1999; therefore, the agency should also take measures to correct any FY 2000 activity moving SCUF funds out of Fund 62.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-4: The Division Of Unemployment Insurance Should Establish Procedures To Account For Service Capacity Upgrade Funds Per The Requirements Of KRS 341.243 (Continued)

Management's Response and Corrective Action Plan

Pursuant to the Record of Noncompliance, we agree the Service Capacity Upgrade Fund (SCUF) should be kept in a separate State account and it was our intention to do so from the outset. The lack of an established computer program to administer SCUF receipts previously hindered our ability to properly determine the amounts of our SCUF funds. We now have a reliable program that will provide correct information as to the account balance.

While we have no means of segregating SCUF receipts (account 14) from Trust Fund receipts (account 62) at the time the monies are collected, we will treat all SCUF withdrawals from fund 62 as corrections to the deposits into the 62 account and not treat them as withdrawals/expenditures in the future.

FINDING 99-CWD-5: The Division Of Unemployment Insurance Should Implement Controls To Ensure The Accuracy Of Accounting Records And To Prevent Unintended Changes To The Records

Exceptions were noted during testing of the Other States Receivable balance reported on the closing package. These exceptions related to four payments that were not recorded in the Other States Receivables Log, the improper inclusion of prior year receivables in the reported balance, and the failure of the agency to follow up on unpaid invoices.

The Other States Receivables Log is an excel spreadsheet the agency utilizes to determine the receivable balance and therefore, should be protected from unauthorized or unintended changes. It appears from reviewing the document and questioning staff, that the document is not protected. At least two of the "unrecorded" payments were partially entered on the log. The correct date of deposit appears on the log, however the amount of the payment was either never recorded or deleted improperly. A simple review of the state files or payment records would have revealed that payment had been received and there was not a receivable amount due. Staff confirms that no such review of the log or other records occurs.

Further, when billed amounts were not paid in full there was no attempt to collect. Subsequent invoices were created with no mention of the balance due from previous period(s). Nor was there any other documentation in the files to indicate that the agency had pursued payment or resolution of the balance due. If the agency is satisfied with the payment made and will not pursue the balance due, a note of this should be made, or the balance should be written off. Either way, the agency should not include as receivable, in the closing package, amounts for which they do not expect payment.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-5: The Division Of Unemployment Insurance Should Implement Controls To Ensure The Accuracy Of Accounting Records And To Prevent Unintended Changes To The Records (Continued)

The agency reported \$96,608.99 of receivables due from prior years in the closing package submitted to FAC. However, testing revealed that the agency had either reported these prior year amounts in error (i.e., payments were not properly recorded) or had failed to make any attempt to collect these prior year receivable amounts and did not expect receipt during the 2000 fiscal year. As a result, the agency overstated receivables in the closing package submitted to FAC.

Proper internal control dictates that the agency maintain and safeguard accurate accounting records.

The AFR-30 instructions specify that payment of amounts reported as receivable is expected during the 2000 fiscal year. However, the failure to attempt collection of these prior year amounts indicates payment is not expected by the agency.

Recommendation

We recommend the agency implement controls to guarantee the agency's records are accurate and prevent the unintended changes to records. The agency should review these records and pursue payments that have not been made. If the agency determines that a disputed amount will not be pursued, records should so indicate. Further, the agency should include only the amount expected to be collected during the following fiscal year as receivable.

Management's Response and Corrective Action Plan

We concur with the findings regarding the methods that we use to maintain our Other States' Receivables and that we have not implemented the proper controls to guarantee the accurate reporting of accounting records. They shall be implemented.

Specifically, we will follow-up on any unpaid invoices at the end of each quarter and send statements requesting payments. Any outstanding balances on billings will be handled through Discrepancy Notices. Journal entries will be noted on the following quarterly billings. Disputed amounts that will not be pursued or collected will be removed from the receivables listing.

The spreadsheet containing the receivable account, Other States' Listing, will be saved in a shared drive with read-only capability. The person responsible for compilation of the report will retain the actual spreadsheet on her PC hard drive. The section supervisor will be the only other person to have access to the records.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance:

FINDING 99-CWD-6: The Office Of Training And Re-Employment Should Ensure Federal Reports Can Be Verified Through Supporting Documentation

State Agency: Cabinet for Workforce Development

Federal Program: CFDA 17.250 Job Training Partnership Act and CFDA 17.246 Employment And Training Assistance - Dislocated Workers

Federal Agency: U. S. Department of Labor

Compliance Area: Reporting

Amount of Questioned Costs: None

The Office of Training and Re-Employment (OTR) submits JTPA Quarterly Status Reports (JQSR) for Title II of JTPA, and Worker Adjustment Formula Financial Reports (WAFFR) for Title III of JTPA, to the federal government on a quarterly basis. Since JTPA grants have a three-year period of availability, separate quarterly reports are required for each open grant. We reviewed these reports for the quarter ended June 30, 1999 and found a lack of supporting documentation resulting in several errors.

The effects for the JQSR are as follows:

1. The Older Individual expenditure amount on the PY 96 JQSR shows \$615,635 in expenditures. However, the supporting documentation for the report indicates the amount to be \$614,011, a difference of \$1,624.
2. STARS 7110 reports used to calculate the State Education Services amounts on the JQSR for PY 97 (grant 0274-98-00) supported \$797,469.04 of the \$1,016,448 reported. This leaves \$218,978.96 unsupported. Since the grant year for PY 97 has not closed, we consider this an error.
3. Also, the JQSR for PY 97 did not include the closeout amounts, resulting in a difference of \$6,611. This is also an error.

The effects for the WAFFR are as follows:

1. The agency's WAFFR calculations for PY 98 included the Rapid Response expenditure for Eastern Kentucky Concentrated Employment Program (EKCEP) twice, once as administration and once as rapid response. Thus, the administration amount reported in Section I of the WAFFR was overstated by \$2,431.
2. The PY 97 Program total reported in Section I Governor's Reserve Funds was \$3,718,042. According to the supporting calculations provided, the total Basic Readjustment and Retraining amount was \$3,704,010. Therefore, it appears the Section I Program total is overstated by \$14,032. This includes \$1,253 from the OTR line in the calculations, which was not supported.

**CABINET FOR WORKFORCE DEVELOPMENT
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(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-6: The Office Of Training And Re-Employment Should Ensure Federal Reports Can Be Verified Through Supporting Documentation (Continued)

Proper internal controls dictate the agency maintain adequate supporting documentation for reports submitted to the federal government.

20 CFR 627.425 (a) (1) states, in part, “The financial management system . . . of each recipient and subrecipient shall provide federally required records and reports that are uniform in definition, accessible to authorized federal and state staff, and verifiable for monitoring, reporting, audit, program management, and evaluation purposes (sections 165(a) (1) and (2), and 182).”

Recommendation

We recommend the agency review the above effects and determine if any adjustments to future reports or amendments to previous reports are necessary. Also, the agency should implement controls to ensure maintenance of adequate supporting documentation along with copies of the reports in the future.

Management’s Response and Corrective Action Plan

1. *The auditors state that the PY96 JQSR report shows \$615,635 in Older Worker expenditures, while the supporting documentation shows \$614,011, resulting in \$1,624 in questioned cost. The \$1,624 in Older Workers expenditures that the auditors are questioning is because the backup as of 6/30/99 for NCKC shows a balance of \$1,624. When questioned, NCKC staff stated that when they reported their final June, 1999 report that all of the older worker funds would be fully expended. That is why the JQSR report showed the entire amount as expended. However, the final June 1999 invoice received from NCKC showed an unexpended balance of \$1,102. This invoice was not received by OTR until October 1999, which is after the JQSR report for 6/30/99 was filed.*
2. *The JQSR report was filed based on adding current year expenditures to the amounts reported for the prior year. The current year expenditures did agree with the amount reported on the current year 7110 reports. However, the amounts reported for the prior year were prepared by staff that was no longer employed by the 8% Education Coordination Branch. The new employee who prepared the JQSR report for the quarter ended 6/30/99 was not aware of how the prior year figures were calculated. It is possible that the prior employee included some anticipated adjustments in the figures reported on the 6/30/98 JQSR report that would also be included in the current year 7110 expenditure reports.*

OTR agrees to adjust PY97 State Education amounts reported on the future JQSR reports to agree with the amounts reported in STARS for the PY97 grant.

**CABINET FOR WORKFORCE DEVELOPMENT
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SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-6: The Office Of Training And Re-Employment Should Ensure Federal Reports Can Be Verified Through Supporting Documentation (Continued)

Management's Response and Corrective Action Plan (Continued)

3. *The closeout amounts in question were probably not included in the JQSR reports because the 7110 closeout reports were probably not received by the filing date of the report. However, OTR agrees to adjust PY97 State Education amounts reported on the future JQSR reports to agree with the amounts reported in STARS for the PY97 grant.*

The response to the effects on the WAFFR are as follows:

1. *OTR agrees that the \$2,431 rapid response amount was included twice on the WAFFR report. This occurred because the prior invoices reported the \$2,431 amount as rapid response but a monthly invoice was sent in to OTR without changing the description from administration to rapid response. The amount was then entered again in the administration column. We agree to correct future quarterly reports by reducing the administration amount by the \$2,431 over reported.*
2. *OTR agrees that the \$3,718,042 amount reported as program expenditures was overstated by \$14,032. However, the \$14,032 amount should have been reported as rapid response, and it was not. Therefore the total amount of expenditures reported was correct. OTR agrees to correct this classification error for PY97 in future quarterly reports.*

FINDING 99-CWD-7: The Department For Employment Services Should Implement Controls To Ensure All Applicable Regulations And Program Policies Are Followed In Their Administration Of Federal Programs

State Agency: Cabinet for Workforce Development

Federal Program: 17.246 Employment And Training Assistance - Dislocated Workers

Federal Agency: U. S. Department of Labor

Compliance Area: Activities Allowed or Unallowed

Amount of Questioned Costs: \$613,950.00

During our testing of allowable activity for the JTPA, we noted instances in which some Substate Grantee (SSG) expenditures had been charged against the allotments of other SSGs. It appears that the Department for Employment Services (DES) transferred expenditures among the various SSGs.

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SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-7: The Department For Employment Services Should Implement Controls To Ensure All Applicable Regulations And Program Policies Are Followed In Their Administration Of Federal Programs (Continued)

These transfers have resulted in disallowed expenditures for those substates, which have been charged for the activities of another area. Therefore, expenditures totaling \$613,950 are questioned as a result of the following transactions:

- \$164,300 of Other Care and Support expenditures from the Bowling Green (Barren River) SSG were charged to the Hopkinsville SSG.
- \$42,500 of Other Care and Support expenditures from the Bowling Green SSG were charged to the Elizabethtown SSG.
- \$170,100 of Other Care and Support expenditures from the Covington SSG were charged to the Ashland SSG.
- \$237,050 of Other Care and Support expenditures from the Somerset SSG were charged to the Lexington SSG.

JTPA regulations specifically forbid the shifting of costs for any reason. Direct expenditures must be charged against the subrecipient award of the SSG that performed and administered the activity or initiated the costs. These expenditures cannot be charged to other SSG awards since those areas have no administrative control, oversight, or monitoring of the activity.

Further, FY 1999 JTPA Title III administrative expenditures were limited to 20% of allocated funds. The transferring of expenditures among the substate areas circumvents this cost limitation by allowing SSGs to maintain the full amount of their administration allowance. For example, one of the contiguous adjustments moved \$164,300 of expenditures from the Bowling Green SSG to the Hopkinsville SSG. Had the allocation been transferred instead of the expenditures, the Hopkinsville SSG would have forfeited \$32,860 (\$164,300 X 20%) of the funds available for administrative costs.

In addition, the transfer of expenditures among SSGs misrepresents expenditures to the oversight agency. Therefore, it interferes with the oversight agency's ability to analyze regional expenditures for the provision of services and for future allocations.

Per JTPA regulations, allowable costs must be necessary and reasonable expenses and allocable to the program.

20 CFR 627.435 (a) states, "To be allowable, a cost shall be necessary and reasonable for the proper and efficient administration of the program, be allocable to the program, and, except as provided herein, not be a general expense required to carry out the overall responsibilities of the Governor or a governmental subrecipient."

**CABINET FOR WORKFORCE DEVELOPMENT
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(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-7: The Department For Employment Services Should Implement Controls To Ensure All Applicable Regulations And Program Policies Are Followed In Their Administration Of Federal Programs (Continued)

While JTPA regulations would permit the combination or transfer of funds allocated to contiguous substate areas, they specifically prohibit the transfer of costs among substate grantees.

20 CFR 631.14 (h) states, “Combination of funds. (1) Substate Grantees within a State may combine funds allocated under part A of Title III for provision of services to eligible dislocated workers from two or more substate areas. Funds contributed by the substate grantees under this section remain subject to the cost limitations, which apply to each substate grantee’s total allocation (section 315 (d)). (2) To combine funds under this provision substate grantees must be in contiguous substate areas or part of the same labor market area.”

20 CFR 627.435 (c) states, “Costs allocable to another federal grant, JTPA program, or cost category may not be shifted to a JTPA grant, subgrant, program or cost category to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons.”

20 CFR 631.14 (c) states, “Of the funds allocated to the Governor, or allocated to any substate grantee, under Part A of Title III for any program year, not more than 15 percent may be expended to cover the administrative cost of programs.” (Auditor note: A waiver granted by DOL for PY 1998/FY 1999 increased this limitation to 20%.)

Recommendation

We recommend that DES rectify \$613,950 in questioned costs and implement controls to ensure that all applicable regulations and program policies are followed in their administration of federal programs.

Furthermore, we recommend that OTR monitor DES’s corrective actions to rectify the questioned costs. In addition, OTR should also review DES transactions for all JTPA grants open during the 1999 fiscal year to determine if there are any additional disallowed costs related to the transferring of expenditures.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-7: The Department For Employment Services Should Implement Controls To Ensure All Applicable Regulations And Program Policies Are Followed In Their Administration Of Federal Programs (Continued)

Management's Response and Corrective Action Plan

This finding questioned all costs related to the manner in which DES implemented the provision in the JTPA Law at Sec. 315(d) and at CFR 631.14 (h). This provision, which was new with the JTPA Amendments of 1992, allows contiguous substate grantees to combine funds for the provision of services to eligible dislocated workers. The combination of funds clause is uniquely different than a reallocation of funds as had always existed in the program. The State grant recipient also had their own policies regarding voluntary reallocations between subgrantees that existed both before and after the amendments that allowed for the transfer of Program Category funds only. These policies are also distinctly different than the contiguous substate combination of funds per the above cited paragraphs of the Law and Regulations.

In [CFR] 631.14 (h)(1) it states that "Funds contributed by the substate grantees under this section remain subject to the cost limitations which apply to each substate grantee's total allocation. This seems to say that the combination of funds does not change those funds identity from how they were originally allocated and each substate grantee involved in such a combination of funds must still apply the limitations to their total allocation as if a combination wasn't occurring. So how in practice are substate grantees to affect such a combination? It was understood by DES that the intent of these provisions was to dissolve the boundary between contiguous areas allowing subgrantees to approach services for the sum of the areas while each area maintains their specific allocations. How else can this be achieved other than one subgrantee stretching their funds across the boundary to serve participants in the contiguous area. This is achieved by the expenditure of funds by one of the subgrantees in support of participants in the other subgrantee area.

Further, the substate grantees apply cost limitations against funds allocated to the substate grantee as defined in CFR 631.14 (i)(2) where it says "allocated by formula prescribed by the Governor under section 302(b) of the Act, and allocated (or distributed) under the provision of section 302(c)(1)(E), as adjusted by within State reallocations implemented by the Governor through procedures established pursuant to section 303 (d) of the Act."

So, cost limitations are applied against the formula allocation plus any additional allocations of Governor's Reserve, plus/minus any involuntary allocations done as a result of not meeting expenditure requirements. No mention is made of the combination of funds provision at 631.14(h) or of any voluntary reallocations that may have taken place according to State policy. Again, the combination clause of the JTPA Amendments was intended to provide a new and additional flexibility to contiguous areas in how funds may be expended to serve the combined areas.

**CABINET FOR WORKFORCE DEVELOPMENT
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SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-7: The Department For Employment Services Should Implement Controls To Ensure All Applicable Regulations And Program Policies Are Followed In Their Administration Of Federal Programs (Continued)

Auditor's Reply

The agency's response centers on the provision in the regulations at 20 CFR 631.14 (h), which allows contiguous substate areas to "share" allocated funds. We do not dispute that the regulations grant the ability to transfer funds. However, the finding resulted from transactions involving the transfer of expenditures not allocated funds. The regulations at 20 CFR 627.435 (c) specifically prohibit the transfer of expenditures for any reason.

In response to auditors concerns that the transfer of expenditures was essentially a method of circumventing the earmarking (cost limitation) provisions, the agency alludes that this was the intent of the regulations in order to give grantees greater flexibility in the way that funds were expended. We do not believe that the intent of this regulation was to eliminate the earmarking limitations. In fact, the regulation stipulates that "funds contributed under this section remain subject to the cost limitations".

FINDING 99-CWD-8: The Division Of Unemployment Insurance Should Ensure Supporting Documentation Used In Preparation Of Federal Reports Is Accurate

State Agency: Cabinet for Workforce Development

Federal Program: CFDA 17.225 - Unemployment Insurance

Federal Agency: U. S. Department of Labor

Compliance Area: Reporting

Amount of Questioned Costs: Unknown

During the testing of compliance for the Unemployment Insurance (UI) reporting requirement, the auditor noted the following exceptions:

- The ETA 191 and ETA 2112 both rely on the agency cashbook for supporting documentation. The agency cashbook was found to be unreconciled and erroneous in Phase I of the audit. Therefore, these federal reports are not using a reliable source of information. We were unable to determine the amount of the error due to the unreconciled cash records.
- The ETA 581 was found to be inaccurately stated due to double adjustments made from noncompliance with agency procedures. The agency was not complying with the set procedures to audit the processed payments before making adjustments. The magnitude of this discrepancy could not be calculated due to the fact that the actual population of double adjustments could not be determined.

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SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-8: The Division Of Unemployment Insurance Should Ensure Supporting Documentation Used In Preparation Of Federal Reports Is Accurate (Continued)

The source data for the federal reports are unreliable agency records. Therefore, inaccurate federal reports are submitted, and UI financial data is misstated, which could impact federal funding decisions.

Proper internal controls dictate that accurate information should be presented when preparing and transmitting federal reports, which can be supported by valid accurate supporting documentation.

Recommendation

We recommend the federal reports be corrected and only use valid, accurate supporting documentation in preparation of these reports.

We also recommend controls be implemented to ensure double adjustments are not recorded. The agency needs to ensure audits are performed in a timely manner to prevent duplication of adjustments.

Management's Response and Corrective Action Plan

We agree that the Federal ETA 191 and ETA 2112 reports are in error as a result of our failure to reconcile our tax and benefits cashbooks. This was also noted in our last audit and while we have made some progress in correcting the problem, we clearly recognize that we have not completed all reconciliations. We also agree that we have not met our projected deadlines for having these completed. We believe that this will be accomplished by June 30, 2000.

We also agree that our accounts receivable data source for the ETA 581 report is unreliable, and as discussed with the auditor during the review, this is symptomatic of a greater problem than reporting accuracy. The agency no longer has adequate staff to maintain the existing accounting system in a timely fashion. The solution is a new system, which is presently under development as part of the agency's electronic workplace initiative (KEWES) in partnership with KPMG. The new system will address the auditor recommendations for improvement by building automated controls into the account adjustment (journal entry) process to prevent many of the problems that occur in the present manual process and by enabling the agency to complete the audit of quarterly tax reports within a few weeks following the due date (as opposed to the several months now required).

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-8: The Division Of Unemployment Insurance Should Ensure Supporting Documentation Used In Preparation Of Federal Reports Is Accurate (Continued)

Management's Response and Corrective Action Plan (Continued)

The timetable for implementation of the new system is dependent upon completion of another project outside of agency control, the Revenue Cabinet Modernized Front End (MFE) system. Upon completion of the UI portion of the MFE system, processing of UI tax reports and payments will be transferred to the Revenue Cabinet, which will greatly reduce the time required to open reports, deposit payments, and enter the data from the reports, allowing our agency to begin the audit process much sooner. Unfortunately, the MFE system is now approximately six months behind schedule, which has delayed implementation of our new accounting system.

At this time it is expected that processing on the MFE system will begin no earlier than June 1st. Assuming this date is met, we expect to fully implement the new tax accounting and adjustment system within three to six months following MFE availability.

We would like to respectfully disagree with the auditor's statement that the effect of the noncompliance, "could impact federal funding decisions". We do not believe this could have any effect on our agency funding.

Material Weaknesses/Noncompliances Relating To Internal Controls And/Or Compliance:

FINDING 99-CWD-9: The Office Of Training And Re-Employment Should Comply With JTPA Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings

State Agency: Cabinet for Workforce Development

Federal Program: CFDA 17.250 Job Training Partnership Act (JTPA) and CFDA 17.246
Employment and Training Assistance – Dislocated Workers

Federal Agency: U. S. Department of Labor

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: N/A

During the FY 1999 audit, we tested the audit log maintained by the Office of Training and Re-Employment (OTR) to track subrecipient monitoring related to the required audits of subrecipients. During this review, we noted several incidences in which OTR did not obtain, review, reconcile, and resolve Service Delivery Area (SDA) audits in a timely manner.

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(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses/Noncompliances Relating To Internal Controls And/Or Compliance:
(Continued)

FINDING 99-CWD-9: The Office Of Training And Re-Employment Should Comply With JTPA Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings (Continued)

Furthermore, we noted that this is a repeat finding, which has been noted since the FY 1996 audit of the JTPA program as an other matter comment. The agency's prior year corrective action plan indicated that the agency would strengthen controls over monitoring of subrecipient audits. However, our testing indicated that deficiencies within the monitoring system had not been corrected. Therefore, we are upgrading this prior other matter comment to a reportable condition and including this finding in the Schedule of Findings and Questioned Costs.

We noted the following deficiencies:

- Two incidences in which OTR did not obtain the SDA audit reports in a timely manner. The receipt of the audit reports in an untimely manner delays the entire resolution process. It also increases the likelihood that subrecipient weaknesses noted in the audit continue for a longer period of time since they are not being addressed.
- Three incidences in which OTR did not resolve subrecipients' audit report findings in a timely manner. According to the Financial Management Guide and the federal regulations for JTPA, the agency has 180 days to resolve these matters. Again, untimely resolution of audit findings increases the likelihood that subrecipient weaknesses noted continue for a longer period of time since they are not being addressed.
- Ten incidences in which OTR did not determine whether the subrecipients were in compliance with OMB Circular A-133. The Audit Log maintained by the agency indicates that OTR expects to receive a Cognizant Agency letter, which would satisfy this requirement. However, OTR did not receive such letters or obtain any other assurance that subrecipients complied with OMB Circular A-133, as required by the regulations.
- Ten incidences in which the agency's records were not reconciled to the SDA's audited financial statements. This should be performed to ensure that the audited financial statements agree with the amounts reported in the agency's grant accounting records. Unreconciled financial statements lead to the potential for federal reporting which does not agree to the financial statements on which an opinion has been given.

These repeat findings indicate that OTR has failed to implement the corrective action plans submitted in each of the past three years. Circular A-133 requires the auditor to follow up on prior audit findings, perform procedures to assess the reasonableness of the schedule of prior audit findings, and report when the summary schedule of prior audit findings materially misrepresents the status of any prior audit findings. Since the agency has repeatedly failed to implement the corrective action plans submitted, we conclude that the Summary Schedule of Prior Audit Findings for fiscal year ended June 30, 1998 for the Cabinet for Workforce Development has been materially misrepresented.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses/Noncompliances Relating To Internal Controls And/Or Compliance:
(Continued)

FINDING 99-CWD-9: The Office Of Training And Re-Employment Should Comply With JTPA Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings (Continued)

OMB A-133 states that the funding agency should be sent a copy of the audit report within the earlier of 30 days after [the subrecipient's] receipt of the auditor's report(s), or 13 months after the end of the audit period. This requirement is also outlined in OTR's Financial Management Guide. However, for fiscal years beginning after June 30, 1998, the requirement changes from 13 months to 9 months.

The regulations of the JTPA program [20 CFR 627.480 (d) (1) and (2)] state: "Each entity that receives JTPA program funds and awards a portion of those funds to one or more subrecipients shall: (1) Ensure that each subrecipient complies with the applicable audit requirements; and (2) Resolve all audit findings that impact the JTPA program with its subrecipient and ensure that corrective action for all such findings is instituted within 6 months after receipt of the audit report [re: resolution of findings]."

OMB A-133 states that the pass-through entity should consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

The OTR Financial Management Guide states: "The SDA is responsible for the reconciliation of the audited financial statements to the JTPA program records maintained in their accounting systems."

Recommendation

We recommend that OTR implement procedures to ensure compliance with the JTPA regulations, OMB A-133 and the OTR Financial Management Guide regarding audit resolutions of subrecipients.

Management's Response and Corrective Action Plan

The Office of Training and Re-Employment (OTR) and the Cabinet for Workforce Development recognizes the importance of complying with subrecipient monitoring requirements.

OTR will review the response to this comment from the prior year and take the necessary steps to ensure the corrective measures outlined last year are in place and the weaknesses in that process are strengthened.

The Cabinet realizes that the "technical" reviews to make certain that the audits were in compliance with A-133 requirements that were to be performed by an assigned staff person at the Cabinet level were not completed. The Cabinet is determined that these reviews will be performed by a staff person, or other arrangements will be made to get these reviews completed.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses/Noncompliances Relating To Internal Controls And/Or Compliance:
(Continued)

FINDING 99-CWD-10: The Department For Adult Education And Literacy Should Ensure Applicable Subrecipient Audits Are Performed And Prompt Action Is Taken On Audit Findings

State Agency: Cabinet for Workforce Development

Federal Program: CFDA 84.002 - Adult Education – State Grant Program

Federal Agency: U. S. Department of Education

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: N/A

Testing of subrecipient monitoring disclosed that the Department for Adult Education and Literacy (DAEL) did not have adequate procedures in place to ensure that subrecipient audits were performed and to ensure the subrecipients took prompt corrective action on audit findings. The lack of adequate subrecipient monitoring is a control weakness and violates OMB Circular No. A-133 subrecipient monitoring requirements.

Our testing indicated that the FY 1998 subrecipient audits had not been obtained or reviewed by the DAEL. The agency is required to obtain and review the audits of all subrecipients that expended more than \$300,000 for the fiscal year. Lapses in the monitoring of subrecipient audits lead to the potential of unresolved control weaknesses related to the administration and expenditure of federal dollars. Furthermore, without this oversight of the subrecipient internal controls, DAEL may continue to award additional federal funds to agencies that are not complying with federal regulations in their grant administration.

For example, we obtained the FY 1998 and FY 1999 subrecipient audits for the Kentucky Valley Educational Cooperative and noted that it disclosed significant problems with the subrecipient's handling of grant funds. The subrecipient audit noted that transactions may not have been properly classified as to purpose and program, unapproved or inappropriate expenditures may have occurred due to missing documentation, there was inadequate documentation to show how federal programs were charged, there existed a lack of proper segregation of duties, and an audit was not made of the federal programs in the required time period. DAEL had not reviewed the report, nor had the agency ensured that the subrecipient took corrective action. As a result, a review of the FY 1999 audit indicated the same control weaknesses existed.

The CFR, Title 34, Section 80.41(3) and EDGAR, paragraph 76.700 requires that grantees comply with federal regulations which includes OMB regulations. OMB A-133 requires that pass-through entities ensure required audits be performed and ensure subrecipients take prompt corrective action on audit findings. Subrecipients that expend \$300,000 or more during the fiscal year must obtain a single audit.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses/Noncompliances Relating To Internal Controls And/Or Compliance:
(Continued)

FINDING 99-CWD-10: The Department For Adult Education And Literacy Should Ensure Applicable Subrecipient Audits Are Performed And Prompt Action Is Taken On Audit Findings (Continued)

Recommendation

We recommend that DAEL implement procedures to ensure compliance with OMB Circular A-133 subrecipient monitoring requirements. Specifically, the agency should ensure that subrecipients which meet the OMB A-133 threshold requirement, obtain audits within the required time period, submit audits to DAEL as required, and propose and implement corrective action for any grant related findings or for any finding relating to the overall controls of the subrecipient.

Management's Response and Corrective Action Plan

The Department of Adult Education and Literacy (DAEL) and the Cabinet for Workforce Development realizes the importance of complying with the subrecipient monitoring requirement of OMB Circular A-133. Therefore there will be a joint effort between DAEL and the Division of Fiscal Services to insure that procedures are implemented to ensure compliance.

Specifically, DAEL will maintain a log of subrecipients and obtain audit reports or required letters in lieu of audit reports for any subrecipients. This log will note the date the audit report or letter is due; the date it is requested; the date it is received; the date it is reviewed; and the date any follow-up on findings is performed.

The Cabinet will work with DAEL to review the audits and letters for any grant related findings and findings relating to the overall controls of the subrecipient. The Cabinet will also provide support by providing "technical" reviews of the audits to make sure that they meet the audit requirements of A-133. The subrecipients will be notified of any concerns and follow-up of the corrective action will be monitored.

**CABINET FOR WORKFORCE DEVELOPMENT
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SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses/Noncompliances Relating To Internal Controls And/Or Compliance:
(Continued)

FINDING 99-CWD-11: The Kentucky Office Of School To Work Should Comply With School To Work And OMB Circular A-133 Subrecipient Monitoring Requirements

State Agency: Cabinet for Workforce Development

Federal Program: CFDA 84.278 – School To Work Implementation Grant

Federal Agency: U.S. Department of Education

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

Several control weaknesses were noted related to the Kentucky Office of School to Work's (KOSTW) monitoring of subrecipients. These weaknesses include the following:

- KOSTW failed to properly notify subrecipients of their audit requirements under OMB A-133. The agency's financial management guide and subrecipient contract contain outdated references related to the audit requirements.
- KOSTW did not properly control the financial monitoring of subrecipients. Financial monitoring procedures did not adhere to policies in the agency's financial management guide. Furthermore, supporting workpapers for financial monitoring reports were not submitted to the agency's management for review.
- Financial monitoring reports were not followed up by the agency to ensure that corrective action plans were reasonable and were implemented by subrecipients. Three financial monitoring reports tested contained findings, for which no follow-up procedures were conducted.
- Required subrecipient audits were not reviewed for compliance with OMB A-133 or for program-related findings. As a result, corrective action for program-related findings was not initiated by the agency.
- Supporting documentation for programmatic monitoring reports was not maintained by the agency. The auditor noted that three of four reports tested did not have supporting documentation.

The failure to properly notify subrecipients of audit requirements and the failure to properly monitor the activity of subrecipients interferes with the agency's ability to ensure that federal dollars are expended in accordance with program requirements. Furthermore, documentation should be maintained for all reports to provide evidence of monitoring and to support report conclusions.

Proper internal controls dictate that documentation be maintained to support the conclusion of reports and conclusions used to determine compliance with federal program requirements.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses/Noncompliances Relating To Internal Controls And/Or Compliance:
(Continued)

FINDING 99-CWD-11: The Kentucky Office Of School To Work Should Comply With School To Work And OMB Circular A-133 Subrecipient Monitoring Requirements
(Continued)

34 CFR 80.40 (a) states: “Grantees must monitor grant and subgrant activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.”

OMB Circular A-133, Section 400 (d) states: “A pass-through entity shall perform the following for the federal awards it makes . . . (2) Advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity. (3) Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. (4) Ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for that fiscal year. (5) Issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.”

Recommendation

We recommend that the agency implement measures to ensure all subrecipients are properly notified of applicable regulations and policies relating to the federal award.

Furthermore, we recommend that the agency implement controls over the monitoring of subrecipients to ensure that:

- monitoring staff follow documented policies,
- subrecipient corrective action plans are followed up,
- required subrecipient audits are obtained and reviewed,
- management decisions for all program related findings in subrecipient audits is issued, and
- proper evidential documentation is maintained.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses/Noncompliances Relating To Internal Controls And/Or Compliance:
(Continued)

FINDING 99-CWD-11: The Kentucky Office Of School To Work Should Comply With School To Work And OMB Circular A-133 Subrecipient Monitoring Requirements
(Continued)

Management's Response and Corrective Action Plan

The Office of School-to-Work (STW) and the Cabinet for Workforce Development realizes the importance of complying with the subrecipient monitoring requirement of OMB Circular A-133. Therefore there will be a joint effort between STW and the Division of Fiscal Services to insure that procedures are implemented to ensure compliance.

The Cabinet will work with STW to review the audits and letters for any grant related findings and findings relating to the overall controls of the subrecipient. The Cabinet will also provide support by providing "technical" reviews of the audits to make sure that they meet the audit requirements of A-133. The subrecipients will be notified of any concerns and follow-up of the corrective action will be monitored.

Other Matters Relating To Internal Controls And/Or Compliance:

FINDING 99-CWD-12: The Department For Employment Services Should Implement Controls To Ensure Administrative Expenditures Are Properly Classified

State Agency: Cabinet for Workforce Development

Federal Program: CFDA 17.246 Employment And Training Assistance – Dislocated Workers

Federal Agency: U. S. Department of Labor

Compliance Area: Allowability

Amount of Questioned Costs: N/A

During allowability testing, we noted several instances where administrative costs related to payroll charges for Department for Employment Services (DES) central office employees had been charged improperly as program costs. This practice by DES was also documented in prior year audits of 1997 and 1998. Though DES management did correct about 65% of the \$13,573.27 charges, they did not correct JTPA Apparel Grant charges of \$4,594.32.

Testing indicated that \$13,573.27 of administrative salaries was improperly charged to program costs. These charges were for employees determined to have strictly administrative job duties during a prior audit and therefore were disallowed as program costs. A correcting JV provided by DES indicated that \$8,819.27 of these costs, all related to regular JTPA Title III funds, were reclassified as administrative costs. The remaining \$4,594.33, related to the Apparel Grant, are still in question.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-12: The Department For Employment Services Should Implement Controls To Ensure Administrative Expenditures Are Properly Classified (Continued)

DES management insists that the salary charges for the Apparel Grant were program costs because the Central Office staff involved was providing direct participant services. The auditor's investigation indicated that the activity performed involved review and approval of participant invoices, which is administrative in nature.

JTPA regulations are specific in regard to defining program and administrative costs. The regulations define administrative costs as follows:

20 CFR 631.13 (f)(1) states, "Administration shall include the costs incurred by recipients and subrecipients in the administration of programs under Title III of the Act, and shall be that portion of necessary and allowable costs which is not directly related to the provision of services and otherwise allocable to the cost categories in paragraphs (b) through (e) of this section. The description of administrative costs in subpart D of part 627 of this chapter shall be used by States and substate grantees as guidance in charging administration costs to Title III programs."

20 CFR 627.440 (d)(5) states, "The costs of administration are those portions of necessary and allowable costs associated with the overall management and administration of the JTPA program and which are not directly related to the provision of services to participants or otherwise allocable to the program cost objectives/categories . . . of this section Costs of administration shall include:

(i) Except as provided in paragraph (e)(1) of this section, costs of salaries, wages, and related costs of the recipient's or subrecipient's staff or PIC staff engaged in:

(A) Overall program management, program coordination, and general administrative functions, including the salaries and related costs of the executive director, JTPA director, project director, personnel officer, fiscal officer/bookkeeper, purchasing officer, secretary, payroll/insurance/property clerk and other costs associated with carrying out administrative functions; . . .

(J) Performing such administrative services as general legal services, accounting services, audit services; and managing purchasing, property, payroll, and personnel; . . ."

Recommendation

We recommend that DES rectify the improper charges related to the Apparel Grant. Further, the agency should implement controls to ensure that administrative activities are properly classified.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-12: The Department For Employment Services Should Implement Controls To Ensure Administrative Expenditures Are Properly Classified (Continued)

Management's Response and Corrective Action Plan

This finding questioned costs related to central office staff time charged to direct program cost categories in the JTPA Title III program. Of the \$13,573.27 originally questioned, \$8,819.27 was resolved by virtue of a journal voucher done during PY98 and provided to the auditor. The \$4,594.32 balance of the finding was for charges made against the Apparel Grant that had not been reclassified as of the date of audit.

DES, though disagreeing with the finding, then initiated [a] journal voucher for \$4,015.79 of the balance. The remaining amount was verified to be time spent by central office staff in assisting local office staff in performing direct services to participants in Columbia, Kentucky. A copy of the journal voucher and the travel voucher showing "a specific employee" in travel status to Columbia at the time in question was provided to the auditor.

FINDING 99-CWD-13: The Kentucky Office Of School To Work Should Implement Controls To Ensure The Maintenance Of Supporting Documentation For All Expenditures

State Agency: Cabinet for Workforce Development

Federal Program: CFDA 84.278 – School To Work Implementation Grant

Federal Agency: U.S. Department of Education

Compliance Area: Activities Allowed or Unallowed

Amount of Questioned Costs: None

During testing of expenditures for allowability, we noted five purchase orders for payments to subrecipient Local Labor Market Areas (LLMAs) which did not have supporting evidence. We noted that the purchase orders were supported by STW-100s, which are submitted by LLMAs to summarize the charges submitted for reimbursement. However, documentation supporting the STW-100 was not available. Although Kentucky Office of School to Work (KOSTW) program personnel noted that supporting documentation was reviewed during program monitoring, we did not determine that monitoring procedures included the reviews necessary to ensure proper classification of costs, or to ensure the existence and completeness of costs submitted for reimbursement.

The failure to obtain and maintain proper supporting documentation for all costs increases the risk of duplicate reimbursements for the same expenditures. Furthermore, it hampers the program's ability to review costs for proper cost classification.

Proper internal controls dictate that supporting documentation should be obtained and maintained to ensure adherence to cost classifications and grant requirements.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 99-CWD-13: The Kentucky Office Of School To Work Should Implement Controls To Ensure The Maintenance Of Supporting Documentation For All Expenditures (Continued)

34 CFR 80.20 (b)(2) states, “Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.”

34 CFR 80.20 (b)(6) states, “Accounting records must be supported by such source documentation as cancelled checks, paid bills, payroll, time and attendance records, contract and subgrant award documents, etc.”

Recommendation

We recommend that the KOSTW maintain detailed supporting information for expenditure reimbursements.

Management’s Response and Corrective Action Plan

The report of weakness stated that five purchase orders for payment did not have supporting documentation and that program staff stated that reviews of the documentation was conducted during program monitoring visits.

The STW program staff discussed both program and financial monitoring. It was stated that support documentation was reviewed during the financial monitoring. Program monitoring reviewed only program activities outlined in the scope of work. However, procedures changed in the review of documentation in November 1998. All supporting documentation is now sent to the Office of School-to-Work along with the STW 100’s, monthly. Documentation is reviewed and maintained for program allowability before the subrecipient is reimbursed.

**SCHEDULE OF FINDINGS AND QUESTIONED
COSTS SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 98	98-WFDC-10	The Cabinet for Workforce Development Should Improve Logical Access Security Procedures For The Unemployment Insurance Systems.	N/A	0	Resolved in FY 99.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 97	97-WFDC-53	The Cabinet For Workforce Development Should Ensure	17.246	\$ 42,039	Finding unresolved in FY 99.
FY 98		The Job Training Partnership Act Complies With Earmarking Requirements.		60,546	No additional costs were questioned in FY 99, but the agency has not resolved outstanding questioned costs.
				<u>\$ 102,585</u>	

(3) Corrective action taken is significantly different from corrective action previously reported:

There are no findings to report in this category.

(4) Audit finding no longer valid:

There are no findings to report in this category.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Material Weaknesses/Noncompliances</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
There are no findings to report in this category.					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 93	N/A	The Cabinet For Workforce Development Had Questioned Costs of \$372,383 For Fiscal Years Ended June 30, 1993.	Multiple Programs	\$ 372,383	DES resolved \$73,749 during FY 97 and \$39,254 during FY 98. There was no resolution of the remaining \$259,380 during FY 99. The agency has provided documents of FY 00 transactions which may resolve the remaining costs during the FY 2000 audit. Note: This finding was erroneously reported in the “Reportable Conditions” section in the FY 98 Agency Report. It was correctly reported as material in the FY 98 SSWAK.
FY 97				(73,749)	
FY 98				(39,254)	
Total Questioned Costs Remaining				\$ 259,380	

(3) Corrective action taken is significantly different from corrective action previously reported:

There are no findings to report in this category.

(4) Audit finding no longer valid:

There are no findings to report in this category.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 97	97-WFDC-6	The Cabinet for Workforce Development Should Implement Controls To Ensure Authorized Personnel Review And Approve Federal Reports.	17.225	0	Resolved in FY 99.
FY 98	98-WFDC-2	The Cabinet for Workforce Development Should Develop Controls To Ensure That Only Authorized Personnel Review and Approve Pay-In Vouchers.	N/A	0	Resolved in FY 99.
FY 98	98-WFDC-5	The Cabinet for Workforce Development Should Improve Controls Over Document Maintenance	N/A	0	Resolved in FY 99.
FY 98	98-WFDC-6	The Cabinet for Workforce Development Should Review All Closing Package Information For Reasonableness And Implement Corrective Action For Materially Misstated Documents.	N/A	0	Resolved in FY 99.
FY 98	98-WFDC-8	The Cabinet for Workforce Development Should Consistently Follow Procedures To Ensure Modifications To Unemployment Insurance (UIA/UIB) Programs Are Authorized And Complete.	N/A	0	Resolved in FY 99.
FY 98	98-WFDC-10	The Cabinet for Workforce Development Should Properly Review Federal Reports And Supporting Documentation For Accuracy (ETA 2112).	17.225	0	Resolved in FY 99.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
<i>(1) Audit findings that have been fully corrected: (Continued)</i>					
FY 98	98-WFDC-11	The Cabinet For Workforce Development Should Implement Controls To Prevent Improper Eligibility Determinations.	17.246	0	Resolved in FY 99.
FY 98	98-WFDC-14	The Cabinet For Workforce Development Should Ensure That Monthly Cash Reconciliations Can Be Verified Through Supporting Documentation.	17.250 17.246	0	Resolved in FY 99.
FY 98	98-WFDC-15	The Cabinet For Workforce Development Should Implement Controls To Ensure That All Federal Reports Are Properly Authorized.	17.250 17.246	0	Resolved in FY 99.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 96	96-WFDC-1	The Cabinet For Workforce Development Should Comply With JTPA Financial Management Guide And OMB Circular A-133 [A-128 For FY 96] By Properly Monitoring And Resolving Subrecipient Audit Findings.	17.250	0	Finding noted again in FY 99. Moved to a reportable condition. See Finding 99-CWD-9 in the Schedule of Findings and Questioned Costs.
FY 97	97-WFDC-4	The Cabinet for Workforce Development Should Ensure The Security Of Confidential Documents.	N/A	0	The agency has attempted to address this issue with the development of scanning procedures; however, to dates these procedures have not been implemented.
FY 97	97-WFDC-5	The Cabinet for Workforce Development Should Develop A Formal Disaster Recovery Plan.	N/A	0	The agency has not developed a formal disaster recovery plan to date.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected: (continued)</i>					
FY 98	98-WFDC-3	The Cabinet for Workforce Development Should Implement Controls To Ensure That Bank Statements Are Reconciled Each Month.	N/A	0	Finding not resolved. Reclassified as reportable. See Finding 99-CWD-1.
FY 98	98-WFDC-4	The Cabinet for Workforce Development Should Ensure That All Write-Offs From Accounts Receivable Are Properly Authorized Prior To Processing	N/A	0	Another exception was noted during the FY 99 audit; therefore, it appears additional controls were not implemented.
FY 98	98-WFDC-7	The Cabinet for Workforce Development Should Ensure That Agency Records Are Properly Reconciled To Statistical Data	N/A	0	Finding not resolved. Reclassified as reportable. See Finding 99-CWD-1.
FY 98	98-WFDC-9	The Cabinet For Workforce Development Should Properly Review Federal Reports And Supporting Documentation For Accuracy (ETA 581).	17.225	0	Finding not resolved. Source documentation for ETA 581 was unreliable. Moved to reportable condition. See Finding 99-CWD-8.
FY 98	98-WFDC-12	The Cabinet For Workforce Development Should Implement Controls To Ensure That All Subrecipient Monitoring Reports Are Issued Timely.	17.250 17.246	0	Additional exceptions were noted during FY 99. However, due to the timing of the prior year findings, the agency was unable to implement their corrective action plan by the end of the fiscal year.
FY 98	98-WFDC-13	The Cabinet for Workforce Development Should Properly Review Federal Reports And Supporting Documentation For Accuracy.	17.250 17.246	0	Exceptions noted again during FY 99. Upgraded to a reportable condition. See finding 99-CWD-6.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Other Matters (Continued)

(3) Corrective action taken is significantly different from corrective action previously reported:

There are no findings to report in this category.

(4) Audit finding no longer valid:

There are no findings to report in this category.

